

Agenda Report

October 20, 2014

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee (October 6, 2014)

FROM: Office of the City Manager

SUBJECT: **REPEAL OF ORDINANCE #7236 THAT PROVIDED CITY INCENTIVES WITHIN THE PASADENA LOCAL DEVELOPMENT (FORMER ENTERPRISE ZONE) AREA AND DIRECT STAFF TO AMEND THE SCHEDULE OF TAXES, FEES, AND CHARGES TO REDUCE THE FIRST YEAR BUSINESS LICENSE FEE FOR QUALIFIED SMALL BUSINESSES**

RECOMMENDATION:

1. Find that the recommended action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3) (General Rule);
2. Direct the City Attorney to prepare an ordinance and return within 30 days repealing Ordinance # 7236 that provided City incentives in the Pasadena Local Development Area; and
3. Direct staff to return to the City Council with a proposed amendment to the schedule of taxes, fees, and charges to reduce business license fees for qualified first year businesses located in Pasadena.

BACKGROUND:

In 2013, through the enactment of AB 93 and SB 90, the State of California eliminated the Enterprise Zone ("EZ") Program. This action was part of an overall effort to recapture state revenues and to eliminate a program that was not generating the anticipated economic results. The Program utilized state tax credits along with City provided local incentives to encourage private investment in disadvantaged areas. In response to this State action, the Pasadena City Council adopted Ordinance # 7236 to extend Pasadena's local incentives, allowing time to consider the impacts of the State's action as well as what, if any, local incentives the City wished to retain.

Pasadena's local incentives offered through Ordinance # 7236 waive business license fees, entitlement fees, and many of the City fees associated with the issuance of a building permit. These waivers have been limited geographically to commercial and industrial uses in Northwest Pasadena and portions of East Washington Boulevard. Research and Development (R&D) uses are eligible for the same waivers in a larger geographic area that covers most of the City's commercial areas.

The EZ program generated some revenue through fees the City was able to charge for administering part of the state program. This revenue partially offset the cost of providing the local incentives. After December 31, 2014, this revenue will be eliminated as part of the State's discontinuation of the program. Therefore any continuation of the existing incentives would come at an additional cost to the City. A summary of the program costs for fiscal year 2014 are as follows:

Business License Waivers (A total of 831 accounts paying an average of \$382)	\$317,778
Permit and Entitlement Waivers (Estimated R&D total: \$39,553)	\$199,343
Gross Amount of Waived Revenue	\$517,120
<u>EZ Revenue (Total fees received by City EZ program administration)</u>	<u>(\$302,760)</u>
City Cost for EZ and Local Incentive Program:	\$214,360

As part of the consideration to extend, modify or discontinue the local incentives, staff presented an overview to the City Council's Economic Development and Technology Committee ("EdTech") on October 7, 2013. At the meeting, the Committee asked staff to consider a new approach to offering fee waivers that might align with the goals of the Economic Development Strategic Plan (EDSP), while striving to achieve a revenue neutral impact to the General Fund.

The EDSP presents four primary goals: 1) creating jobs, 2) enhancing shopping and dining activities, 3) providing special attention to knowledge based technology sector, and 4) promoting Pasadena's visitor and tourism activities.

One of the primary overarching intentions for each of these EDSP goals is to encourage people to start new businesses in Pasadena. A new approach that would convey the City's strong support for the entrepreneurial community is to reduce existing business license fees for certain first year businesses. A very low barrier to entry for small companies will provide a meaningful welcome to those new participants in the Pasadena business community. Staff recommends that the first year business license fee be modified to \$1 for qualified first year businesses that have 5 or fewer employees.

Previously, all business within the Enterprise Zone received incentives including liquor stores, smoke shops, massage parlors, and fast food franchises. Staff intends to apply the reduced fee to start-up companies that are primarily involved with developing a product and not to those that simply provide services. This will cover the technology, creative, and light manufacturing type companies that tend to pay higher wages as they

mature and grow. Criteria will be established using North American Industry Classification System (NAICS) codes and will be presented when staff brings forward the proposed amendments to the schedule of taxes, fees, and charges.

If this approach is supported by Council, staff will prepare a set of criteria that ensures the reduced first year fee is applied to businesses that advance the goals of the EDSP. Based on this approach, and the year to year fluctuations of new applications, the anticipated loss of revenue will likely range between \$50,000- \$100,000 per year.

Staff is also pursuing improvements to the building permit process that will save businesses time and resources. The business community consistently conveys the fact that a timely and predictable City review process is very important when they need to upgrade facilities and add staff. The City has responded to that concern by assembling an Interdepartmental Review Team (IRT) to evaluate the results of the Matrix Study, and to review the current City processes for checking building plans and permit applications. The team is working toward developing strategies to provide more responsive customer services at each department reviewing permits while eliminating unnecessary city review steps. Implementing the recommended improvement from the IRT process represents an advancement that will save valuable time to those groups applying for permits and paying fees. This will also be supported by efforts to formalize and expand economic development's business concierge service and the Permit Center's case manager role in the building permit process.

OUTREACH RELATED TO ANTICIPATED CHANGES:

By way of press release, city website updates, email notification to enterprise zone businesses, and three business workshops, staff provided notification to the local business community of the EZ Program elimination and next steps. Throughout the notifications, staff conveyed that the City may look into alternatives to retain a limited set of the local incentives, but that the automatic waivers associated with the geographic areas would most likely be discontinued. Follow-up letters conveying changes in the ordinance will also be sent to impacted businesses. From an implementation perspective, here are the main steps anticipated for the dissolution of Ordinance # 7236:

- *Business License Fees* – Any new or renewing business license application received after December 31, 2014 are required to pay the applicable business license fee. For calendar year 2015 only, Business License will provide an additional 30 day grace period of any late fee penalties should a previously waived business, in good standing, not pay their reinstated amount after the City's current 30 day grace period of receiving their business license renewal.
- *Planning and Building Permit Fees* – Any new permits submitted after December 31, 2014 will not be eligible for Ordinance # 7236 waivers. Qualified permits (for the existing incentives) must have applied for permits prior to December 31, 2014 to be eligible for fee waivers. Any modifications to a qualified permit(s) after December 31, 2014 are subject to the review of the Planning and Community Development Department to determine if such modifications are eligible for fee waivers.

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City Council's Strategic Plan Goal to: (1) maintain fiscal responsibility and stability and (2) support and promote the quality of life and local economy.

ENVIRONMENTAL ANALYSIS:

The proposed repeal of Ordinance # 7236 has been determined to be exempt from CEQA pursuant to State CEQA Guidelines Section 15061(b)(3); the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. The repeal of Ordinance #7205 would not have a significant effect on the environment.

FISCAL IMPACT:


Per the State's elimination of the EZ Program, the City will no longer collect EZ administration revenue post December 31, 2014. Historically this revenue partially offset the fees waived through the application of local incentives. During the last fiscal year, the City experienced a \$214,360 loss of waived revenues after accounting for EZ related voucher revenues. The continuation of Ordinance # 7236 without offsetting revenue would result in an estimated cost of \$530,000 annually to the City's General Fund. The revenue reduction caused by the proposed reduction to first year business license fees for new small businesses (1-5 employees), is anticipated to be less than \$100,000 per year.

Respectfully submitted,




Steve Mermell
Assistant City Manager

Prepared by:



Melissa Alva
Enterprise Zone Manager

Approved by:



Michael J. Beck
City Manager